

Local Option Sales Tax Increment Financing

Funding Urban Renewal Projects with
Increased Local Option Sales and Services
Tax Revenues

Tax Expenditure Committee – November 27, 2017

Anthony Girardi
Tax Research and Program Analysis Section
Iowa Department of Revenue

What is a LOST TIF?

- ▶ Local Option Sales Tax (LOST) Tax Increment Financing (TIF)
- ▶ Allows incorporated cities to capture and use increases in LOST revenue above a base year level for urban renewal projects
- ▶ Enacted in 2008
- ▶ To be eligible, a city must have a LOST ordinance in effect and have established an Urban Renewal Area
- ▶ Urban Renewal Area
 - A slum area, blighted area, economic development area, or combination of the areas which the local governing body designated as appropriate for an Urban Renewal Project

States that Allow Sales Tax TIFs

- ▶ Colorado
- ▶ Connecticut
- ▶ District of Columbia
- ▶ Illinois*
- ▶ Iowa*
- ▶ Kansas
- ▶ Kentucky
- ▶ Mississippi
- ▶ Missouri*
- ▶ New Jersey
- ▶ Oklahoma
- ▶ Pennsylvania
- ▶ Tennessee
- ▶ Texas
- ▶ Utah
- ▶ Washington

* Iowa and neighboring states

Source: Council of Development Finance Agencies

Establishing a LOST TIF

- ▶ A city may, by ordinance of the city council, create a LOST TIF district for the purpose of funding projects located within an Urban Renewal Area
 - ▶ Since 2012, a city must have prior approval of the county
 - ▶ The city council designates the amount of TIF revenue to be used, which may be all or a portion of total TIF revenues
 - ▶ Remains in effect until the Urban Renewal Area designation ends, or 20 years after the base year, whichever is earlier
- 

How LOST TIFs Work

- ▶ The TIF base year is the fiscal year in which a LOST TIF ordinance is adopted
 - ▶ LOST revenues from sales in the TIF district in the base year are called the base
 - ▶ Subsequent increases in LOST revenues in the TIF district are called the increment
 - ▶ The increment constitutes the TIF revenues that may be used for the urban renewal project
 - ▶ The increment includes revenue from any new businesses established in the TIF district after the base year
- 

Cities with LOST TIF

- ▶ Base year 2012
 - Davenport (Scott County)
 - Red Oak (Montgomery County)
 - Spencer (Clay County)

- ▶ Base year 2013
 - Stuart (Adair County)

LOST Distribution Formula

- ▶ **Distribution**
 - Weighted by property valuation (25%) and population (75%)
 - Property valuation from July 1, 1982 through June 30, 1985
 - Population is based on the most recent decennial census
- ▶ Where there is a TIF, the LOST Distribution for the county is reduced by the amount of the increment
- ▶ The other cities and unincorporated area of the county will continue to receive only the base year amount from sales in the LOST TIF district as long as the LOST TIF is in effect

Example LOST Distribution

Example County	
City A (LOST TIF)	45.0%
County Treasurer	30.0%
City B	15.0%
City C	5.0%
City D	3.0%
City E	1.0%
City F	1.0%
Total	100.0%

- ▶ In the Example County, there are six cities and the unincorporated area
- ▶ Under the population and tax-levying formula, each of the cities and the unincorporated area receive a percentage of every LOST dollar as indicated in the table
- ▶ City A receives 45% of every LOST dollar distributed to the county
- ▶ Example County receives 30% of every LOST dollar distributed for the unincorporated area
- ▶ City B receives 15%, etc.

Example LOST TIF Distribution

- ▶ City A enacts a LOST TIF for a designated Urban Renewal Area
- ▶ In the base year, LOST revenues in the TIF are \$100,000
- ▶ In the next fiscal year, LOST revenues in the TIF district increase by \$20,000 to \$120,000
- ▶ This \$20,000 is returned to City A for the Urban Renewal Area
- ▶ With the TIF, City A receives 100% of the increase
- ▶ Without the TIF, City A would have received its designated distribution percentage of 45%
- ▶ The Example County and other cities thus forego their share of the increase, or 55% of \$20,000, or \$11,000

LOST Distribution Percentages in Counties with LOST TIFs

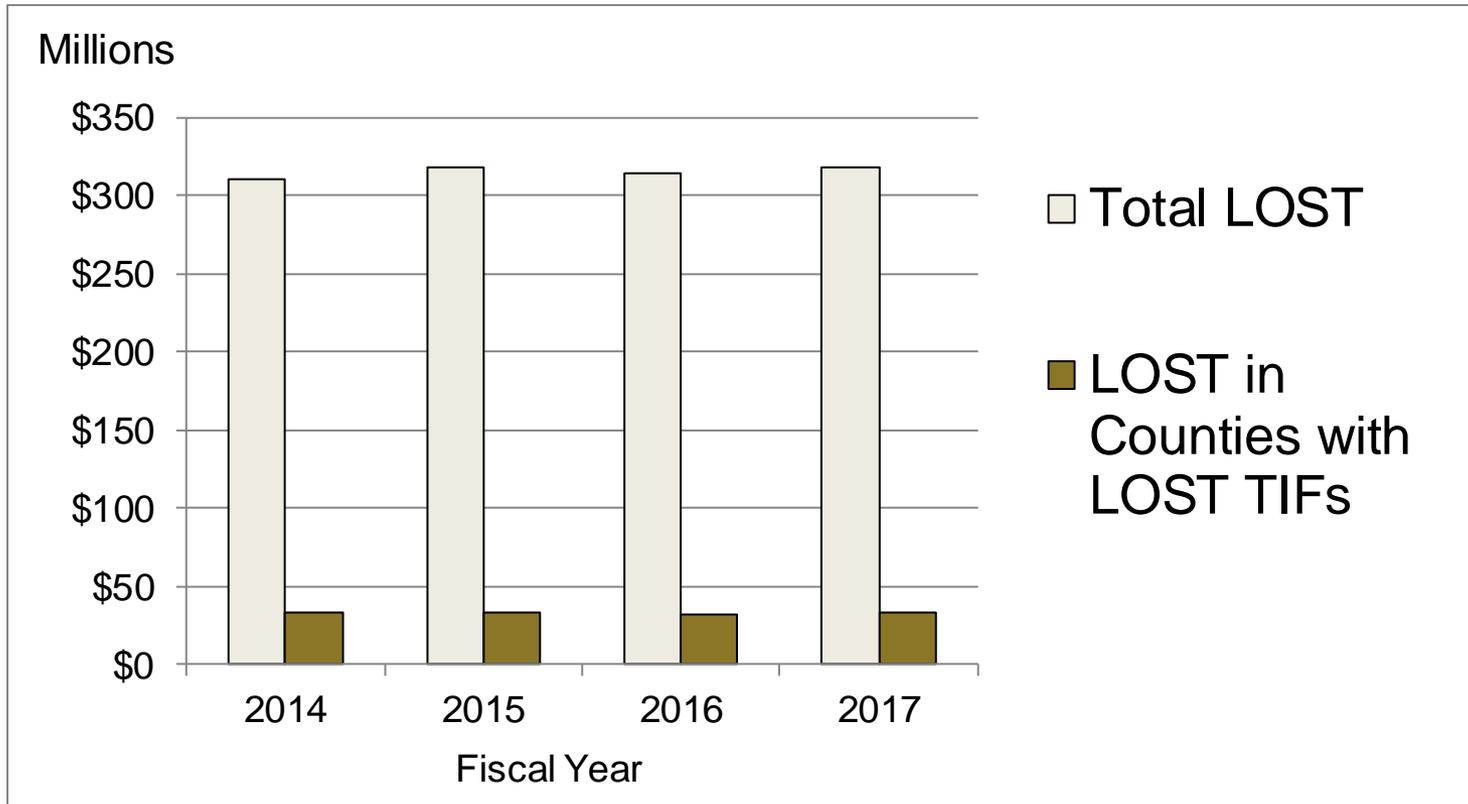
Adair County	
County Treasurer	48.3%
Greenfield	22.3%
Adair	9.0%
Fontanelle	7.4%
Stuart	6.8%
Orient	4.3%
Bridgewater	1.9%
Total	100.0%

Clay County	
Spencer	61.1%
County Treasurer	27.9%
Everly	3.3%
Royal	2.3%
Peterson	1.7%
Fostoria	1.1%
Dickens	0.9%
Webb	0.7%
Greenville	0.4%
Rossie	0.3%
Gillett Grove	0.2%
Total	100.0%

Montgomery County	
Red Oak	49.6%
County Treasurer	31.9%
Villisca	9.6%
Stanton	5.2%
Elliott	2.7%
Grant	0.7%
Coburg	0.3%
Total	100.0%

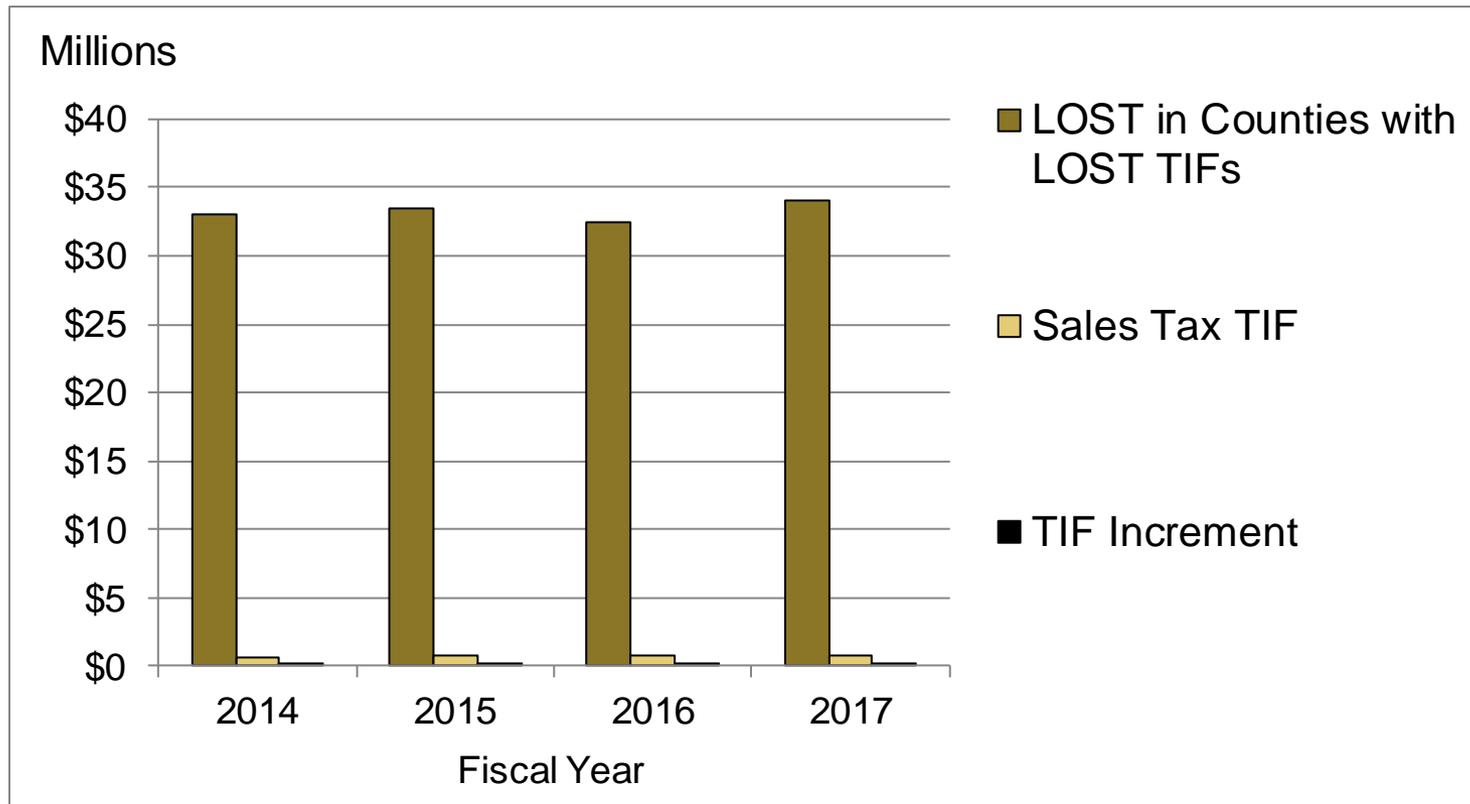
Scott County	
Davenport	57.7%
Bettendorf	17.6%
County Treasurer	15.6%
Eldridge	2.9%
LeClaire	2.0%
Walcott	0.9%
Buffalo	0.8%
Blue Grass	0.7%
Princeton	0.5%
Long Grove	0.4%
Riverdale	0.4%
Donahue	0.2%
Mccausland	0.2%
Dixon	0.1%
Maysville	0.1%
New Liberty	0.1%
Panorama Park	0.1%
Durant	0.0%
Total	100.0%

LOST Revenues



Source: Iowa Department of Revenue

Total LOST Revenues in Counties and Cities with LOST TIFs



Source: Iowa Department of Revenue

County LOST totals are only for those counties in which LOST TIFs are located. Data for all LOST TIFs is combined.

LOST Revenues in TIF Districts

	2014	2015	2016	2017
Total LOST in Counties with LOST TIFS	\$31,805,300	\$32,990,900	\$33,402,700	\$34,000,800
LOST to TIF Urban Renewal Areas	\$74,800	\$190,800	\$198,600	\$207,600
Percent of Total in Counties with LOST TIFS	0.2%	0.6%	0.6%	0.6%
NonTIFs' Foregone LOST	\$32,200	\$80,600	\$83,400	\$94,500
Percent of Total in Counties with LOST TIFS	0.1%	0.2%	0.2%	0.3%

County LOST totals are only for those counties in which LOST TIFs are located. Data for all LOST TIFs is combined.

Goals of LOST TIFs

- ▶ Cities with LOST TIFs report various purposes
 - To attract new retail development as part of a broader strategy of mixed economic development
 - To attract new tenants to vacant retail space
 - To help with the renovation of a store, thereby helping that store to remain open in the town; i.e., not to attract new businesses

Some Criticisms of LOST TIFs

▶ Iowa State Association of Counties (2012)

- “Under the LOST-TIF, city councils have the unilateral authority to capture LOST proceeds that are currently distributed under an allocation formula to all jurisdictions in the county.”

<https://www.iowacounties.org/wp-content/uploads/2013/07/January2012.pdf>

▶ Iowa Policy Project (2010)

- “[LOST TIFs transfer] funds from taxpayers to developers without promoting development”
- “Leaves rural voters holding the bag — paying sales tax that they can no longer share in.”

<http://www.iowapolicyproject.org/2010docs/100301-IFP-salesTIF.pdf>

Evaluating the Effectiveness of LOST TIFs

- ▶ In general, LOST TIFs are regarded by those cities that make use of them as helpful for limited purposes
- ▶ Overall assessments from cities with LOST TIFs:
 - “One of the few tools available to cities. Useful as part of the set of tools available to cities.”
 - “The TIF was an extra incentive to attract businesses to the city. It was something that set that city apart from others.”
 - “Because we wanted to maintain tenants in an existing development, the LOST TIF was a better tool than conventional property tax TIF.”
 - “An important piece of our overall strategy.”
 - “Results were mixed, limited.”